



Weekly Global Economic Brief

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Private capital flows to developing countries eased in October, but remain close to their highest level in more than a year, led by robust bond issuance by emerging market sovereigns and firms. Business sentiment has strengthened in some countries, including the US and several emerging markets, but remains weak in general amid US “fiscal cliff” and Euro Area risks. In the US, new discoveries and innovations have pushed down domestic prices of natural gas, creating arbitrage opportunities between domestic and international markets.

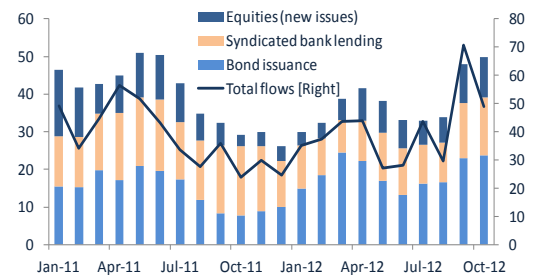
Private capital flows to developing countries remain high, despite easing in October. Gross international capital flows to developing countries equaled \$49 billion in October, the second highest inflow over the past 15 months, but down from the record \$71bn of inflows during September. Euro Area debt turmoil in May caused capital flows to slow, but stabilization of financial market tensions and high-income monetary policy prompted the recent uptick in flows. Bond issuance was particularly strong at \$32 billion in October, with 44% of the total destined for the financial sector. Notable issues included a \$2 billion bond sale by Russia’s Sberbank, a \$1.5 billion offering of 10-year sovereign bonds by Chile, and a \$500 million sale by Bolivia (its first in nearly a century). New equity issuance and bank lending (especially to Emerging Europe and Latin America) moderated, partly because low bond yields made bonds a more attractive option for some borrowers.

Business sentiment indicators have strengthened in several countries, but remain weak in general amid risks to the global economy. Manufacturing Purchasing Managers’ Indexes (PMIs) for October suggest a strengthening of activity in the US as labor and housing markets continue to improve. PMIs also gained ground and suggest expansion in Brazil, Indonesia, India, Russia, and Turkey. In China, however, both the official and Markit PMI are below or close to the no-growth 50 threshold despite recent accelerations in industrial activity. Similarly, the manufacturing PMI for both core and periphery Euro Area countries points strongly toward further contraction, despite a stabilization and even small gains in industrial activity during recent months. Business pessimism may be reflecting market worries that the U.S. fiscal cliff or Euro Area tensions could flare up dampening demand and prospects – a view seemingly supported by weak sales of capital goods.

The wide gap between U.S. natural gas prices and European natural gas and crude oil prices suggests downside risks on oil prices. The post-2005 increase in crude oil prices induced innovation in both natural gas and oil extraction technologies such as horizontal drilling and hydraulic fracturing. A 28 percent increase in U.S. natural gas production between 2005 and 2011 has depressed domestic prices. Low prices have induced electrical and petro-chemical producers to substitute natural gas for coal, but a similar shift by the transportation industry has yet to take place, in part due to the absence of distribution networks and safety concerns. So far, export licensing requirements have prevented U.S. producers from selling into world markets where natural gas prices are much higher. U.S. natural gas costs only 29 and 20 percent as much as European and Japanese gas. Should licenses become more readily available, the arrival of US gas on international markets could exert significant downward pressures on international prices of both natural gas and crude oil.

Private capital flows to developing countries remain high

Gross capital flows to developing countries, \$ billions

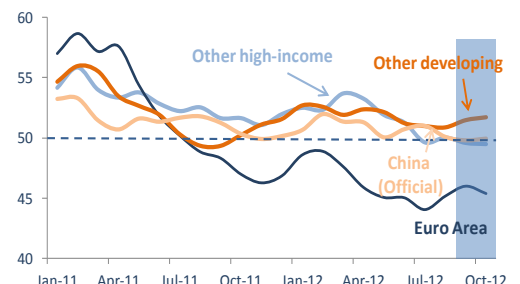


Note: Bars represent 3-month moving averages of reported flows; Line shows raw unsmoothed data for the total of those flows.

Source: Dealogic and World Bank Prospects Group.

Business sentiment stabilizes in US, China and emerging markets, but continues to deteriorate in Euro Area and Japan

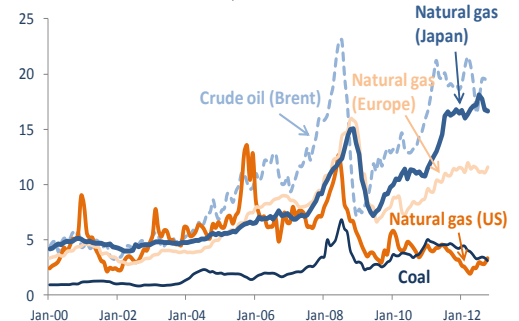
Purchasing Managers’ Index, greater than 50 implies expansion



Sources: Haver Analytics, Markit and World Bank Prospects Group.

US natural gas prices have diverged from international prices

US\$/mmbtu



Sources: Thomson Reuters Datastream and World Bank Prospects Group.

Development Prospects Group

Economic Developments

indicators expressed as %ch y/y, except Industrial Production quarterly figures are %ch q/q, annualized

08-Nov-12

	2008	2009	2010	2011	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Apr	2012 May	2012 June	2012 July	2012 Aug
Industrial Production, S.A.													
World	0.3	-8.2	9.0	4.5	5.3	1.2	5.7	0.0	3.6	3.0	2.5	2.4	1.5
High Income Countries	-2.1	-12.8	8.1	2.8	5.4	0.3	2.6	-0.9	2.8	1.6	1.0	0.4	-0.5
Developing Countries	5.7	1.3	10.7	7.3	5.2	2.8	11.0	1.4	4.9	5.2	5.0	5.8	4.8
East Asia and Pacific	10.8	8.5	14.5	11.6	10.8	4.1	16.6	2.8	8.4	8.9	8.0	8.0	7.6
East Asia x. China	2.6	-3.3	9.5	0.1	8.8	-30.5	44.1	-0.6	2.5	4.3	-0.7	-0.4	-0.8
Europe and Central Asia	0.1	-10.2	9.5	5.9	1.9	5.2	4.7	-3.6	1.3	3.1	1.6	3.1	0.6
Latin America and Caribbean	0.8	-6.8	6.7	3.2	-0.7	-1.4	1.4	-0.5	0.0	-1.0	0.1	0.8	1.0
Middle East and N. Africa	3.6	-2.8	1.6	-9.8	-2.8	9.2	13.7	12.1	8.0	8.1	7.5	-	-
South Asia	6.8	-0.2	9.9	5.0	-3.8	0.3	10.8	-6.6	-1.2	2.5	-1.4	0.0	2.2
Sub-Saharan Africa	-2.1	0.7	4.1	4.0	-2.0	-2.3	-0.8	5.2	-0.7	-3.8	4.6	-	-
Inflation, S.A.¹													
High Income Countries	3.4	0.2	1.6	2.7	3.0	2.8	2.4	1.9	2.1	1.8	1.8	1.6	1.8
Developing Countries	8.4	4.3	5.8	7.1	7.5	7.0	6.4	6.1	6.4	6.0	5.9	5.8	5.8
East Asia and Pacific	6.3	-0.2	3.5	5.5	6.2	4.7	3.9	3.0	3.5	3.2	2.4	2.1	2.2
Europe and Central Asia	12.1	8.7	6.9	7.9	7.8	8.5	7.6	6.8	7.5	6.3	6.7	7.4	7.4
Latin America and Caribbean	6.4	5.8	7.6	12.5	7.1	7.1	6.8	6.3	6.3	6.3	6.3	6.2	6.2
Middle East and N. Africa	16.4	9.0	6.1	6.8	12.8	13.2	14.3	15.4	15.1	14.9	16.1	16.9	-
South Asia	10.0	10.5	11.7	9.3	9.4	8.6	7.7	10.2	10.2	10.3	10.3	9.7	9.9
Sub-Saharan Africa	12.6	8.7	7.2	8.5	9.0	9.3	9.2	8.6	8.9	8.6	8.3	8.0	7.7

¹ Inflation is calculated as the GDP-weighted average for all groups.

Trade and Finance

indicators expressed as %ch y/y, except International Reserves are %ch p/p and trade quarterly figures are %ch q/q, annualized

	2008	2009	2010	2011	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Apr	2012 May	2012 June	2012 July	2012 Aug
Exports, Nominal, US\$, S.A.													
World	15.9	-22.8	21.8	19.2	0.5	-8.6	15.9	-8.4	-0.1	0.3	-2.1	-4.1	-4.8
High Income Countries	13.8	-23.0	18.4	17.7	-1.0	-11.3	16.3	-11.7	-1.5	-2.6	-3.5	-5.2	-5.5
Developing Countries	21.2	-22.5	29.8	22.6	3.8	-2.9	15.0	-1.0	3.0	6.7	0.9	-1.7	-3.4
East Asia and Pacific	16.8	-16.4	30.9	19.7	8.5	-7.5	13.0	18.3	3.9	12.4	6.7	-0.2	-0.9
Europe and Central Asia	30.8	-32.6	26.8	29.4	-3.8	17.9	15.0	-19.7	0.5	5.5	-2.4	0.7	-0.7
Latin America and Caribbean	11.4	-20.0	28.1	22.4	3.5	0.2	13.0	-18.5	2.7	0.4	-6.3	1.3	-5.8
Middle East and N. Africa	38.6	-35.9	26.7	17.0	-10.2	19.5	17.7	-13.5	0.9	4.8	0.9	-12.6	-
South Asia	28.0	-13.3	31.4	33.4	15.3	-27.7	9.8	-10.3	-0.1	-6.6	-7.3	-13.0	-10.0
Sub-Saharan Africa	28.5	-30.9	35.3	25.6	-4.4	-16.3	41.0	-9.4	8.2	0.4	-6.4	-4.5	-
Imports, Nominal, US\$, S.A.													
World	16.7	-23.9	21.2	19.7	-3.7	-4.7	16.9	-12.8	-0.3	-0.8	-3.9	-1.9	-5.8
High Income Countries	13.8	-25.0	17.6	17.5	-6.8	-10.8	17.3	-12.9	-1.4	-4.2	-6.3	-5.1	-7.5
Developing Countries	25.6	-20.7	30.3	25.1	3.5	10.0	16.0	-12.6	2.3	7.2	1.5	5.4	-2.2
East Asia and Pacific	21.4	-15.5	37.2	24.4	12.5	19.6	14.7	-14.9	2.1	13.1	5.9	7.1	-2.9
Europe and Central Asia	26.6	-33.7	26.0	29.9	-13.7	2.4	22.0	-10.3	-1.4	0.9	-2.1	6.0	-0.8
Latin America and Caribbean	22.3	-24.7	29.1	21.9	1.1	0.9	17.0	-6.2	5.2	6.3	-2.7	3.0	-3.6
Middle East and N. Africa	40.5	-6.8	14.2	16.1	8.3	8.9	-0.7	39.0	12.3	12.6	14.1	12.8	-
South Asia	42.8	-19.3	32.0	33.2	0.3	5.4	23.8	-41.7	2.3	-9.9	-10.9	-1.2	-5.0
Sub-Saharan Africa	25.9	-18.3	13.9	23.9	-1.1	-0.9	11.5	-0.1	-4.3	9.5	1.6	3.3	-
International Reserves, US\$													
High Income Countries	5.7	15.6	10.8	11.8	2.5	2.0	1.5	3.0	0.7	0.2	2.0	0.8	1.0
Developing Countries	12.9	15.0	14.7	9.7	-0.4	-0.8	2.9	-0.8	0.7	-2.4	0.9	0.0	1.1
East Asia and Pacific	23.5	22.7	19.3	11.8	-0.1	-0.8	3.6	-1.9	0.1	-2.7	0.8	0.1	1.1
Europe and Central Asia	-8.8	2.4	7.5	2.0	-3.5	-4.1	2.5	-0.7	1.8	-3.1	0.7	-1.1	1.7
Latin America and Caribbean	11.3	10.3	15.6	16.9	2.9	2.1	3.2	2.9	1.9	-0.6	1.6	0.4	0.2
Middle East and N. Africa	22.6	5.1	5.9	3.1	-0.3	0.9	0.4	1.2	1.9	-2.2	1.6	-	-
South Asia	-9.0	10.9	5.4	-1.9	-2.9	-4.6	-1.2	-1.0	0.7	-3.0	1.4	0.0	0.8
Sub-Saharan Africa	7.8	2.3	0.7	10.5	-1.3	2.5	2.2	1.2	2.4	-1.1	-0.1	0.9	-

Financial Markets

8-Nov-12

	2009	2010	2011	2011	2012			2012				MRV ¹	Chg since Sep-12 '08 ³
				Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sep		
Interest rates and LIBOR (%)													
U.S. Fed Funds Effective	0.16	0.18	0.10	0.08	0.10	0.15	0.15	0.16	0.16	0.13	0.15	0.16	-1.94
ECB repo	0.70	0.48	0.82	0.41	0.15	0.12	0.00	0.10	0.02	-0.01	-0.01	0.00	-4.38
US\$ LIBOR 3-months	0.69	0.34	0.34	0.48	0.51	0.47	0.42	0.47	0.45	0.43	0.39	0.31	-2.51
EURIBOR 3-months	1.23	0.81	1.39	1.50	1.04	0.70	0.36	0.66	0.50	0.33	0.25	0.20	-4.76
US 10-yr Treasury yield	3.24	3.20	2.77	2.03	2.02	1.81	1.62	1.61	1.50	1.66	1.70	1.74	-1.99
German Bund, 10 yr	3.24	2.76	2.63	1.97	1.86	1.47	1.33	1.35	1.23	1.33	1.43	1.32	-2.86
Spreads (basis points)													
US Corporate (High Yield Bonds)	1011	538	544	703	559	561	556	596	595	546	526	495	-238
JP Morgan Emerging Markets	472	301	341	417	379	377	327	395	360	320	301	284	-73
Asia	374	206	218	269	237	250	210	270	237	204	189	157	-139
Europe	449	247	301	413	389	370	291	381	332	284	258	232	-81
Latin America & Caribbean	510	360	404	467	416	421	384	444	416	375	360	354	-34
Middle East	574	342	366	430	435	451	475	484	484	483	457	429	-69
Africa	431	274	364	426	401	369	303	374	337	298	275	270	-65
Stock Indices (end of period)²													
Global (MSCI)	299	331	300	300	333	312	332	312	316	322	332	332	3.7
High-Income (\$ Index)	1168	1280	1183	1183	1312	1236	1312	1236	1251	1279	1312	1311	2.2
United States (S&P-500)	1115	1258	1258	1258	1408	1362	1441	1362	1379	1407	1441	1428	14.1
Euro Area (S&P-350\$)	1358	1353	1171	1171	1287	1172	1268	1172	1185	1233	1268	1269	-13.7
Japan (Nikkei-225)	10546	10229	8455	8455	10084	9007	8870	9007	8695	8840	8870	8973	-26.5
Developing Markets (MSCI)	783	912	725	725	822	740	792	740	752	748	792	794	14.0
Asia	778	906	732	732	827	758	817	758	770	763	817	828	30.4
Europe & C. Asia	616	635	449	449	521	470	511	470	458	480	511	506	-32.6
Latin America & Caribbean	4117	4614	3602	3602	4108	3521	3675	3521	3566	3540	3675	3712	5.0
Africa	815	1049	849	849	939	883	945	883	912	909	945	939	22.3
Exchange Rates (LCU / USD)													
High Income													
Euro Area	0.72	0.76	0.72	0.74	0.76	0.78	0.80	0.80	0.81	0.81	0.78	0.78	11.1
Japan	93.55	87.81	79.77	77.35	79.29	80.13	78.60	79.27	78.97	78.68	78.14	80.27	-25.3
Developing													
Brazil	2.00	1.76	1.67	1.80	1.77	1.96	2.03	2.05	2.03	2.03	2.03	2.03	14.0
China	6.83	6.77	6.47	6.36	6.31	6.33	6.35	6.36	6.37	6.36	6.32	6.24	-8.8
Egypt	5.55	5.64	5.94	5.99	6.04	6.04	6.08	6.05	6.06	6.08	6.09	6.11	12.4
India	48.42	45.73	46.67	50.87	50.26	54.08	55.17	56.07	55.45	55.56	54.51	54.07	18.2
Russia	31.76	30.38	29.41	31.21	30.16	31.07	31.95	32.82	32.50	31.95	31.39	31.51	23.2
South Africa	8.43	7.32	7.26	8.10	7.76	8.13	8.26	8.39	8.25	8.27	8.26	8.65	7.3
Memo: USA nominal effective rate	86.30	83.47	78.33	79.28	80.10	81.11	80.95	81.99	82.10	81.18	79.57	79.80	-7.1

¹ MRV = Most Recent Value.

² MSCI Indices for Asia, Africa, and Europe and C. Asia, for 2008 are calculated from February-December, due to data availability.

³ Change expressed in levels for interest rates and spreads; percent change for stock market and exchange rates.

Commodity Prices

	2009	2010	2011	2011	2012			2012				MRV	Chg since Sep-12 '08 ³
				Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sep		
Oil price, \$/b, nominal ¹	62	79	104	103	112	103	103	91	97	105	106	101	3.7
Non - Oil Index ²	150	194	234	206	212	206	209	198	209	207	211	211	7.8
Food Index ²	173	193	238	225	229	232	257	229	254	259	256	251	23.4
Metals and Minerals Index ²	127	189	216	183	196	185	173	176	175	168	177	176	-5.4
Baltic Dry Index ³	2598	2755	1546	1916	878	1017	841	934	1056	759	707	916	-80.9

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 1, 2005

³ Base Date = May 1, 1985